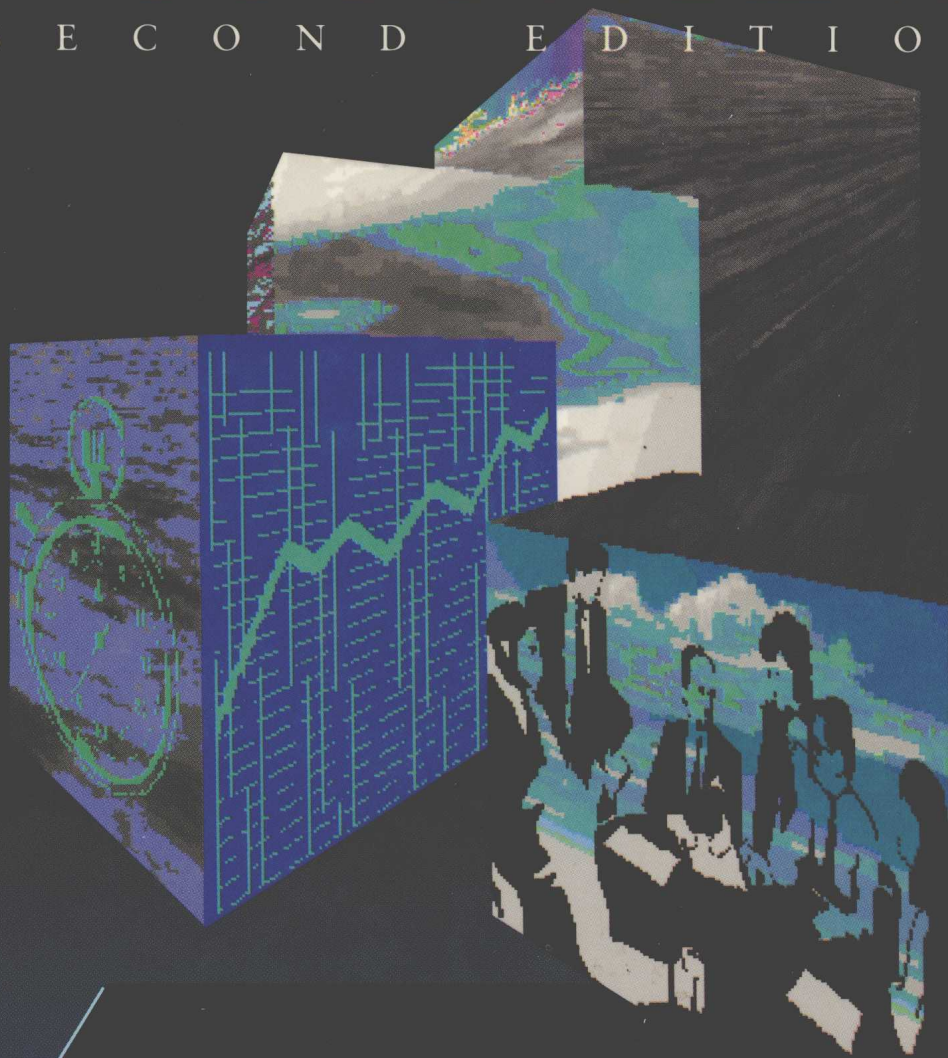


MANAGEMENT ACCOUNTING

S E C O N D E D I T I O N



DON R. HANSEN
MARYANNE M. MOWEN

S E C O N D E D I T I O N

Management Accounting

Don R. Hansen

Oklahoma State University

Maryanne M. Mowen

Oklahoma State University



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.....

To our families

Jan, Kenn, Neil, Ryan, and Makenzie Hansen

and

John, Katie, and Cara Mowen

.....

P R E F A C E

This text is designed to introduce students to the fundamentals of management accounting. It assumes that students have been introduced to the basics of financial accounting; however, extensive knowledge of financial accounting is not needed. Our emphasis is on the use of accounting information. Thus, the text should be of value to students with a variety of backgrounds. Although written to serve undergraduates, the text has also been used successfully at the graduate level. The assignment material has sufficient variety to accommodate both undergraduate and graduate students.

Many of the students in business schools who are required to take a course in management accounting are not majors in accounting. For these students, it is often difficult to appreciate the value of the concepts being taught. This text attempts to overcome this attitude by introducing each chapter with a motivational scenario. Most (but not all) of these scenarios are based on real-world experiences and involve managers who are faced with some problem that requires the use of accounting information for its resolution. Seeing that effective management requires a sound understanding of how to use accounting information should enhance the interest of nonaccounting majors in management accounting concepts. Students and instructors have responded positively to the scenarios and are supportive of the approach.

Management accounting is continuing to evolve and respond to changes in the manufacturing and service sectors. To deal with the evolution of management accounting concepts, we have four chapters that cover the new developments. Three of these chapters deal with changes that affect product costing, decision making, and planning and control. The remaining chapter deals with measuring and controlling quality and productivity. Also, we have integrated some of the new concepts into some of the traditional chapters. The four chapters on new manufacturing accounting have all been significantly revised to reflect some of the more recent developments. The extensive coverage of activity-based costing, JIT, strategic costing, activity-based responsibility accounting, quality, and productivity is one of the major strengths of the text. These new chapters are supported by a good variety of exercises, problems, and cases. The major revisions to these chapters as well as the rest of the text are listed in a separate section of this preface.

We should also mention that the text also covers all the traditional topics. Although there are a significant number of firms that are using the new procedures, the vast majority are apparently still using the traditional management accounting concepts. Thus, while the traditional management accounting procedures may be outmoded for some manufacturing firms, this

is not true for all firms. In fairness to students, both the traditional and the new management accounting should be taught. This strategy provides students with the foundation they need to work in either the conventional or new manufacturing environment. Also, understanding the conventional approach and its limitations and the new approach with its advantages (as well as limitations) will help future managers to bring about change when it is merited. Perhaps understanding that management accounting is not a static discipline will itself contribute to additional innovative developments.

The coverage of ethical conduct for management accountants continues to be an area of emphasis in the text. Ethical lapses in the business world have led to a call for more classroom discussion of ethical behavior. The role of ethics is discussed in the first chapter and the code of ethics developed by the Institute of Management Accountants (formerly the NAA) is introduced. Several substantive problems on ethics have been added to Chapter 1 and each chapter in the text has one problem involving an ethical dilemma. These problems allow the instructor to introduce value judgments in managerial accounting decisions. Experience indicates that these problems can provoke some lively discussion in class.

We have tried to provide down-to-earth discussions of concepts and simple and numerous examples. The concepts are cast in a real-world context to add credibility and interest. We have also added additional exhibits and illustrations to help clarify the written material.

Changes in the Second Edition

1. In Chapter 2, we have added a few cost terms: *differential costs*, and *controllable* and *noncontrollable costs*. We also introduce the concept of a cost driver and relate it to cost behavior. The exhibits and graphs are now tied to the Robin Bat's example. Finally, the notion that there are two environments for management accounting—conventional and advanced—is introduced.
2. In Chapter 4, we have moved all coverage of FIFO to an appendix. We have also added three new exhibits to help students visualize the important concepts.
3. In Chapter 5, we have added three new exhibits that visually illustrate the concepts underlying service-department allocations. We have also moved the coverage of the reciprocal (algebraic) method to an appendix.
4. In Chapter 6, the following changes were made:
 - a. We altered the introductory scenario to provide a more complete list of the symptoms of an outmoded cost system, and these symptoms are then summarized in a new exhibit.
 - b. A more complete and in-depth discussion of the first stage of activity-based costing is provided with more detail concerning the nature of overhead cost pools.
 - c. A new section on activity identification and classification describes and illustrates unit-level, batch-level, product-level, and facility-level activities.

- d. A new section discusses when an activity-based cost system should be selected. This section should help students understand why many firms are still using conventional systems.
 - e. The exhibit comparing and contrasting JIT and conventional manufacturing has been altered to provide a better visual representation.
 - f. The coverage of JIT now includes discussions on automation and the effect JIT has on activity-based costing.
 - g. A new section briefly describes backflush costing.
- 5. The chapter on cost behavior and pricing has been moved from Chapter 8 to Chapter 7. In Chapter 7, we have introduced the notion of using cost estimation to identify cost formulas for both unit-based and nonunit-based cost drivers. We also have added some observations concerning the limitations and risks of short-term pricing.
- 6. Chapter 8 now covers CVP analysis (formerly Chapter 9).
- 7. Chapter 9 (formerly Chapter 7) now covers variable costing income statements.
- 8. In Chapter 12, the following changes were made:
 - a. ACRS was relabeled to MACRS and depreciation tables were altered to include three-year assets.
 - b. A new section on the limitations of current capital budgeting practices for the advanced manufacturing environment has been added (this section was formerly located in Chapter 13).
 - c. A case involving capital-budgeting issues and ethics was added. The case allows role playing and the roles are defined in the solutions manual.
- 9. Chapter 13 contains an expanded discussion concerning the move from EOQ to JIT inventory management. Also, extensive revisions have been made by adding new material on strategic costing. The role of activity-based costing for strategic costing analysis is emphasized. The effect of activity-costing on various managerial decision models is altered to reflect the new activity classification now described in Chapter 6.
- 10. In Chapter 15, we have simplified the presentation of the material by emphasizing the use of a three-pronged approach to variance analysis. The formula approach is also illustrated for the variable inputs. We have further simplified the presentation of the material by using only one method for overhead analysis. A significant reduction in acronyms also makes the material easier to follow.
- 11. In Chapter 16, we have added a section that describes the need for and decision utility of quality cost information. We have also expanded our coverage of productivity accounting by describing and illustrating profit-linked productivity measurement.
- 12. In Chapter 17, we have added material that discusses performance evaluation and transfer pricing for multinational firms.

13. In Chapter 18, we have added sections on life-cycle costing and activity-based responsibility accounting, with considerable attention to activity management.
14. For each chapter, the chapter summaries are now keyed to the learning objectives.
15. We have increased the total number of exercises and problems by 40%–50%. A number of exercises and problems have also been revised. Thus, more than 50% of the assignment material is new or revised.

Supplementary Material

Instructor's Manual The instructor's manual contains a complete set of lecture notes for each chapter with transparency masters that illustrate key concepts. The transparency masters are in enlarged print to ensure their readability. The manual also provides a listing of all exercises and problems, their topical coverage, and the estimated difficulty and time required for solution.

Solutions Manual This supplement contains the solutions for the end-of-chapter assignment material. Solutions have been error checked by four accounting professionals to ensure their accuracy and reliability. Transparencies for all solutions are also available. To help with the readability the size of print is larger than normal (14-point Letter Gothic was used).

Check Figures A list of check figures for selected parts of every quantitative problem is available from the publisher.

Test Bank This supplement offers multiple-choice problems, short problems, and essay problems. It has been updated and expanded in size (the quantity of problems has been increased significantly).

Study Guide The study guide provides a detailed review of each chapter and allows students to check their understanding of the material through quizzes and exercises. Specifically, students are provided with a Key Terms Test, a Chapter Quiz, and Practice Exercises. Answers are provided for all assignment material.

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